RETIREMENT TODAY

TEACHERS' FUND FOR RETIREMENT

MAY 2002

See What's New at www.discovernd.com/rio

For one, a new look! The Retirement and Investment Office website is sporting a new look that captures the dual roles that TFFR and the State Investment Board play in the makeup of RIO. Don't miss the opportunity to check out the RETIREMENT BENEFIT CALCULATOR and the NEWS tab to find recent additions to the site. Visit us soon!

NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE

Teachers' Fund for Retirement
State Investment Board

ND Retirement and Investment Office
1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, Toll free: 1-800-952-2970
www.discovernd.com / rio

SUMMARY OF 2003 PROPOSED LEGISLATION

The TFFR Board has submitted administrative changes to the Legislative Employee Benefits Programs Committee for study. The proposed changes should not have an actuarial cost to the retirement plan. A complete bill draft is available at the Retirement and Investment Office.

TFFR Study Bill 52

- Clarifies and updates the definition of salary to reflect the various types of salary and bonus payments that are eligible or not eligible for TFFR benefit calculation purposes.
- Updates dual membership guidelines for retirement plan participation and benefit calculations for individuals whose job duties require participation in TFFR and / or NDPERS.
- Modifies the 700 annual hour limit that a retiree may return to TFFR covered employment and continue to receive monthly benefits. Bases the annual hour limit on length of contract duties.

  9 month contract = 700 hours
  10 month contract = 800 hours
  11 month contract = 900 hours
  12 month contract = 1,000 hours

  Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.
- Incorporates federal tax law changes (EGTRRA 2001) to allow TFFR to accept eligible rollovers from traditional IRAs, qualified 401(a) and 401(k) plans, 403(b) tax sheltered annuity plans, and governmental 457 deferred compensation plans, for the purchase of TFFR service credit.
- Replaces the 5-year Term Certain and Life Option with a 20-year Term Certain and Life Option to provide a longer time period for beneficiary coverage.
- Adds a Partial Lump Sum Distribution Option (PLSO) for members eligible for an unreduced retirement

continued on back page

Is The Sky Falling?

Fay Kopp
Deputy Executive Director

Is Chicken Little right? Is the sky falling on TFFR pensions? After all, "I saw it with my own eyes, and heard it with my own ears, and part of it fell on my head!"

Certainly we have all seen, heard, and felt signs of a weakened economy. Enron. Arthur Anderson. Retirement security. Pension reform. Stock market decline. Recession. Daily news reports as well as our own personal experience with declining account balances makes it seem like "retirement" is not as secure as it used to be.

The TFFR Board, State Investment Board, and RIO staff are feeling those same knocks on the head. But unlike Henny Penny, Ducky Lucky, Goosey Loosey, and Turkey Lurkey, we are carefully examining the situation before blindly following Chicken Little's warnings of impending disaster. Let's consider a few facts:

1) For most teachers, TFFR is your primary source of retirement income. TFFR is a defined benefit pension plan. In a defined benefit plan, your benefits are based on a specific formula set by state law. You do not make the investment decisions nor take the investment risk; TFFR does.

2) The TFFR Board sets the asset allocation policy for the TFFR trust fund to ensure that "all TFFR investment eggs are not put in one basket." Diversification of investments among different companies and asset classes helps to ensure that the success or failure of one particular company or type of investment does not have a huge impact on TFFR returns.

3) The State Investment Board prudently manages and constantly monitors your investment program. The SIB employs qualified managers with high expertise in managing their assets. And while absolute returns have been dismal, relative performance has been pretty good during the poor market conditions in 2001 and 2002.

4) The fund uses conservative accounting practices such as "smoothing" to help stabilize fluctuating investment returns. "Smoothing" returns helps funds like TFFR to average plan assets over a longer period of time so that any one-year performance doesn't have as big an impact on the plan.

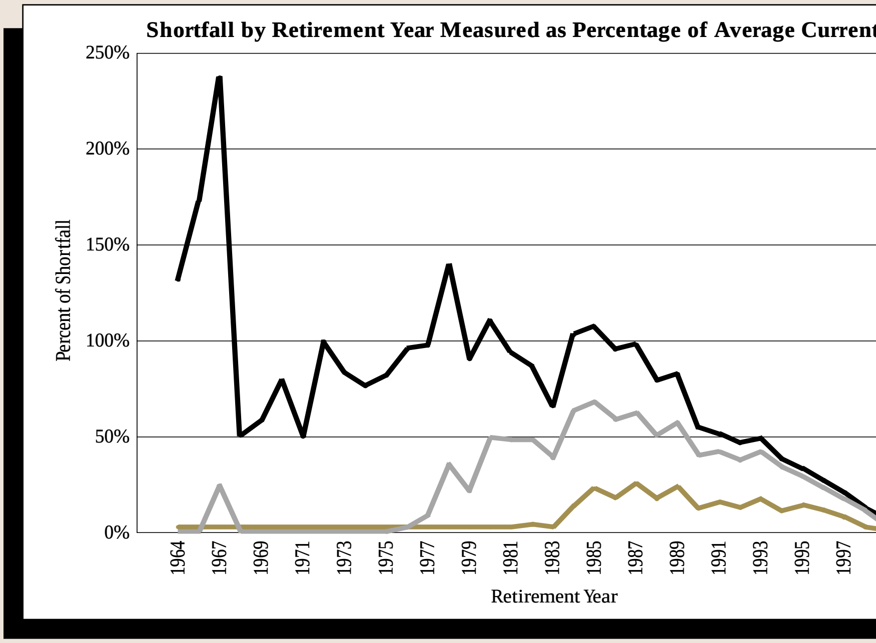
5) State law requires an annual audit. Under the control of the State Auditor, the independent auditing firm of Brady Martz, Inc. recently issued an unqualified or "clean" opinion of our agency's financial statements and internal controls.

6) State law also requires an annual actuarial valuation of the TFFR plan. Consequently, the soundness of your pension plan is measured each year, and reviewed by a separate actuary every ten years.

7) WE ARE LONG TERM INVESTORS. Repeat. WE ARE LONG TERM INVESTORS. What happened yesterday and today matters, but not nearly as much as what happens in the next 5 - 10 - 25 - 50 years.

It's true. Recent economic downturns and related negative investment returns in the past 24 months have affected the TFFR fund as a whole. And while TFFR members are guaranteed to receive the retirement benefit they have earned, the availability of funds today to provide for benefit improvements in the future is unknown at this time. That is why the TFFR Board is not proposing benefit improvements in the 2003 session. Although your current benefits are secure, the Board does not want to jeopardize the financial soundness of the plan by suggesting changes to the TFFR benefit structure.

TFFR will continue to use common sense, prudent investment practices, conservative accounting methods, vigorous auditing standards, and a long-term approach to keeping your pension benefits safe. Isn't that better than following Foxy Loxy's advice?



ACTUARY STUDIES TFFR BENEFITS

TFFR actuarial consultants, Gabriel, Roeder, Smith & Company (GRS), recently conducted a comprehensive study of TFFR benefits. As part of the study, GRS compared TFFR with other public retirement systems and assessed the gap between the current benefits being paid to TFFR retirees and three alternative targets or goals:

• **2.00% Multiplier Goal** – original benefit, recalculated using the 2.00% multiplier, Rule of 85, and current early retirement factors.

• **TFFR Goal** – 2.00% Multiplier Goal, increased 2% per year for each year retired.

• **Full CPI Goal** – 2.00% Multiplier Goal, increased to fully restore all purchasing power lost to inflation, as measured by the Consumer Price Index (CPI).

Gap Analysis Results *(see graph)*

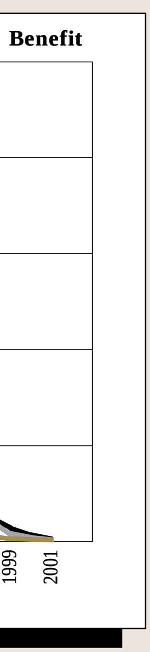
• Most retirees who retired prior to 1984 have benefits equal to or greater than 2% multiplier goal.

• Shortfall relative to the 2% multiplier goal is greatest for 1984-1993 retirees.

• Against TFFR Goal, average benefit is greater than average target for almost all groups retiring before 1978.

• Significant percentages of these longest-retired have received more than the target goals.

• Gaps are smaller for recent retirees, as expected, since they retired under higher multipliers and have lost less to inflation.



Gap Analysis Example:

To understand how these goals relate to current retiree benefits, let's use the 1988 retirees as an example.

Average Current Benefit:	*$1,044*
Average 2% Multiplier Goal:	*$1,221*
Average TFFR Goal:	*$1,579*
Average Full CPI Goal:	*$1,831*

You can see that as a group, the benefits for retirees who retired in 1988 have not kept up with the target goals listed above.

Current $2/$1 Approach

The study also examined what would happen to new retirees if future retiree increases were based on the current approach of giving ad hoc increases of $2.00 X service plus $1.00 X years retired and projected the impact on some hypothetical retirees if this practice were continued. In general, it was found that the current practice favors retirees who retired with lower-than-average salary, and provides smaller increases to retirees who left with higher-than-average salary. The report indicates that this practice may not be considered equitable to all retirees and that substituting a percentage increase for a dollar-based increase will more equitably preserve the purchasing power of all teachers who retire at the same time.

Types of Increases and Effect on Margin

The report outlined the impact of either ad hoc or automatic benefit increases on the future availability of margin. According to the actuarial consultants, it doesn't matter if available margin is spent on one large increase, payable immediately, or spent on a series of smaller increases payable over the next several years or over the lifetime of the retirees. Both methods have the same actuarial impact, and both methods use up the same amount of margin.

During the 2001 legislative session, some people expressed concerns that if automatic increases were adopted, TFFR would lose flexibility. But according to the study, TFFR loses flexibility no matter what kind of benefit improvements are adopted. It is the spending of margin on a benefit improvement that takes away flexibility, not the structure of the improvement. The key point is that the increases under either approach have the same present value, and either type of increase will eliminate the same amount of margin.

Report Recommendations

The actuary indicated that the TFFR Goal of a 2% multiplier and 2.0% postretirement increases appears to be a reasonable goal. However, because of the variety of approaches that have been used to determine ad hoc benefit improvements in the past, on average, teachers who retired in the late 1960's and early 1970's already have met the goal, while many who left in the 1978-1993 period are far behind. Therefore, the actuary recommends a targeted increase that varies by year of retirement and includes a minimum increase for all retirees. These types of increases could be phased in over a number of years, as actuarial margin becomes available.

TFFR Board

As mentioned in the last newsletter, due to uncertain economic conditions at this time, the TFFR Board is not proposing any benefit improvements or other legislative changes in 2003 that would require actuarial margin or increased contribution rates to fund the changes. Although TFFR currently has a positive margin, the Board is concerned that the margin could be eroded by future poor investment experience during this volatile period.

As economic conditions change in the future, the TFFR Board will consider the benefit improvement structure recommended by the Retiree Study.

SUMMARY OF LEGISLATION *continued from cover*

annuity to provide a lump sum cash payment in exchange for a permanent monthly benefit reduction.

Member makes a one time election at retirement to receive a lump sum payment equal to 12 times the amount of the Single Life Annuity payable at the same time the monthly retirement annuity begins.

The monthly retirement option selected is actuarially reduced to reflect the partial lump sum payment. Generally, the actuarial reduction for a PLSO is approximately 10 percent.

This option is not available to members who select the level income option, members receiving disability benefits, or to beneficiaries of deceased members.

Example:
Jane retires on August 1, 2003 with the Rule of 85. Her Single Life Annuity Benefit is $1,700 per month. She may elect the regular retirement option and receive $1,700 per month for life or receive a Partial Lump Sum Distribution of $20,400 ($1,700 x 12) and a lifetime benefit of $1,530 per month.

Retirees using the PLSO may also select a Joint & Survivor Option or Term Certain Option to provide a continuing benefit to a beneficiary. These options would require another actuarial reduction to the $1,530.

RETIREE BENEFIT INCREASE

The second installment of the retiree benefit increase approved by the 2001 Legislature will be paid on July 1, 2002. All annuitants receiving benefits as of June 30, 2002 will receive a 0.75% (.0075) increase to their monthly benefit. Look for a retirement benefit notice to be mailed in June that will show the amount of your benefit increase.

Example:

Current Monthly Benefit	*$1,500.00*
Benefit Increase ($1500 x .0075)	*11.25*
Monthly Benefit as of July 1, 2002	*$1,511.25*

FEDERAL TAX WITHHOLDING

Your TFFR benefits are subject to federal and state tax. If your tax withholding is not adequate, you may have to pay estimated taxes during the year or a tax penalty at year end.

You may elect no withholding or specify withholding based on marital status and allowances. You may request additional federal withholding and also have North Dakota state taxes withheld from your retirement benefit. Keep in mind we can not withhold taxes for another state.

If you would like to start, change, or stop tax withholding, contact our office for a tax withholding form.

NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE
Teachers' Fund for Retirement
State Investment Board
1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100